

# PROPOSED RESOLUTION

AGENDA ID #14643 (Rev. 2)  
ITEM #5

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS  
Water and Sewer Advisory Branch

RESOLUTION W-5083  
March 17, 2016

### RESOLUTION

(RES. W-5083) DEL ORO WATER COMPANY WALNUT RANCH DISTRICT. ORDER AUTHORIZING A SURCHARGE OF \$20.58 PER MONTH PER CUSTOMER, FOR SIXTY (60) MONTHS IN THE WALNUT RANCH DISTRICT TO RECOVER THE COSTS ASSOCIATED WITH THE EMERGENCY TRANSMISSION INTERTIE PROJECT WITH THE CITY OF COLUSA.

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### SUMMARY

By Advice Letter (AL) No. 424, filed on November 2, 2015, Del Oro Water Company (DOWC), a Class B water utility, on behalf of its Walnut Ranch District (District), seeks to recover costs associated with both the District's reimbursement of City of Colusa fees incurred in contract negotiations for the Emergency Transmission Intertie Project, as well as costs incurred with the Colusa Industrial Park Intertie Project.

This Resolution grants a surcharge of \$20.58 per month per customer, for sixty (60) months for DOWC's Walnut Ranch District, to recover these costs tracked in DOWC's Extraordinary Events Emergency Water and/or Supplemental Water Memorandum Account (EEEW/SWMA). As monthly residential flat rate service is \$106.85, this surcharge of \$20.58 will increase rates by 19.26%.

### BACKGROUND

Del Oro Water Company (DOWC) has requested authority under General Order (G.O.) 96-B and Section 454 of the Public Utilities Code to increase rates to recover the lost revenues and increased operational costs incurred in its Extraordinary Events Emergency Water and/or Supplemental Water Memorandum Account (EEEW/SWMA).

DOWC's Walnut Ranch District currently has 79 service connections, with 76 active and three inactive customers. The present rates became effective on May 6, 2014, by

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approval of Advice Letter (AL) 386, which authorized a Consumer Price Index rate increase of \$1,535 or 1.5%, for the year 2013.

DOWC established the EEEW/SWMA to track costs which are incurred from time-to-time in purchasing water from outside agencies and/or interconnecting to outside agencies (either temporarily or permanently) in order to facilitate delivery of water for any of DOWC's districts. The EEEW/SWMA for the Walnut Ranch District tracked all costs totaling \$93,845 primarily related to engineering and legal costs of the proposed Colusa Industrial Park Intertie Project, approved on May 7, 2009 by Resolution No. 4761.

As discussed below, DOWC is being forced to abandon the project as a result of annexation.

## Colusa Local Agency Formation Commission (LAFCO) has completed Annexation

On February 11, 2014, Walnut Ranch officially became a part of the City of Colusa. On March 6, 2014, the Colusa Local Agency Formation Commission (LAFCO) adopted a Resolution, Certificate of Completion, for the annexation of the Walnut Ranch subdivision. DWA obtained and reviewed a copy of this certificate.

The Walnut Ranch annexation is made up of 82 lots and includes a total of 51 acres. Of the 82 lots annexed into the City of Colusa, 79 are inside of DOWC's service area with 76 active customers. The remaining three lots were never within the Walnut Ranch subdivision and were outside of DOWC's service area. The annexation zone is a combination of mixed agricultural use, and a mature and fully developed subdivision consisting of all single family estate sized lots. With the annexation completed, residents will continue to have their water supplied through its emergency interconnection through DOWC until a new water system is designed, and a buyout of DOWC has been negotiated.

## City of Colusa/DOWC Walnut Ranch Emergency Transmission Intertie Project

On August 18, 2008, DOWC, on behalf of its Walnut Ranch District (District), contacted the City Manager for the City of Colusa (Colusa), and requested the City Council consider a permanent intertie to their system as an alternative to the Colusa Industrial Park Intertie Project which was suspended while the customers and Colusa explored the city purchasing the District's assets. DOWC pursued an intertie with Colusa with

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the intent of providing its customers with potable water at the most reasonable cost. Colusa's ultimate position was that an intertie could only be used on an emergency basis and not considered a permanent solution to the water issues within the District. The total cost accumulated with respect to this matter is \$8,184.

### City of Colusa/DOWC Industrial Park Intertie Project

In 2005, the District began working on an intertie project with the Colusa Industrial Park knowing the water issues within the District required an alternative source. Efforts were also required as a response to the State Water Resources Control Board's Compliance Order No. 01-21-10 dated July 15, 2010, ordering the District to achieve compliance with the maximum contaminant level for arsenic, which the District's water supply exceeded.

Via Resolution No. W-4761, dated May 7, 2009, the Commission authorized the Colusa Industrial Park Intertie Project, after tremendous efforts and cooperation between the parties. However, this matter was delayed due to customers' desire to annex to the City of Colusa. As a result, the District suspended work on the project, and the Commission classified the project, via Resolution No. W-4873 as a "... currently suspended Industrial Park Intertie Project ..." indicating that the project was not disapproved, but that reimbursement was placed on hold pending the customers' and the City of Colusa's efforts to have the City of Colusa acquire the District. As of October 29, 2015, Colusa officially recognized DOWC's purchased water surcharge, authorized via AL 366-A, hence DOWC requests to collect the \$93,845 reflecting both the costs from the Emergency Transmission Intertie Project and the Colusa Industrial Park Intertie through a surcharge in the amount of \$20.58 per customer per month, for sixty (60) months until the full amount is collected.

### NOTICE AND PROTESTS

AL 424 was served on November 2, 2015, in accordance with the provisions of G.O. 96-B. A notice of the proposed rate increase was mailed to all DOWC Walnut District customers via direct mail on November 3, 2015.

Three timely protests were received from the following parties: 1) The Commission's Office of Ratepayer Advocates (ORA), 2) The City of Colusa (Colusa), and 3) The Residents of Walnut Ranch.

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The key issues addressed by ORA were that the advice letter would violate statute or Commission order, or is not authorized by statute or Commission order upon which the utility relies, and that the relief requested in the advice letter is unjust and unreasonable. Colusa and the Residents of Walnut Ranch protested on the grounds that the City of Colusa expressed interest in purchasing the utility, the Industrial Park Intertie Project was incomplete, and that the relief requested was unjust and unreasonable. DOWC, in turn, filed a response to the protests, and to the extent that changes or modifications were necessary, they were incorporated herein.

## DISCUSSION

By Advice Letter No. 424, filed on November 2, 2015, DOWC seeks to recover costs associated with both the District's reimbursement of City of Colusa fees incurred in contract negotiations for the Emergency Transmission Intertie Project, as well as costs incurred with the Colusa Industrial Park Intertie Project.

The increase requested herein is for the purpose of recovering through a surcharge, on a dollar-for-dollar basis, the balances that DOWC recorded in its EEEW/SWMA.

When a utility seeks recovery of costs recorded in a memorandum account, it has the burden to meet the following standards:

- 1) it acted prudently when it incurred these costs;
- 2) the utility paid reasonable amounts for these costs;
- 3) the memorandum account costs are not covered by other authorized rates; and
- 4) it is appropriate for ratepayers to pay for these costs in addition to otherwise authorized rates (see e.g., Ordering Paragraph 5 of Resolution (Res.) W-4824.

Based on the events discussed above, the Division of Water and Audits (DWA) finds that DOWC acted prudently in incurring the costs recorded in its EEEW/SWMA. These costs were incurred in order to track the expenses incurred from time-to-time in purchasing water from outside agencies and/or interconnecting to outside agencies (either temporarily or permanently) in order to facilitate delivery of water for any of DOWC's districts.

With respect to the 2<sup>nd</sup> standard, DWA reviewed the expenses incurred in the amount of \$93,845 for the District, recorded in its ledger, which DOWC provided to Staff, and has found these expenditures to be prudent and reasonable.

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With respect to the 3<sup>rd</sup> standard discussed above, DWA has reviewed the District's last GRC, authorized on December 19, 2013, (see Res.W-4956), and has ascertained that DOWC could not have anticipated the expenditures incurred and the expenditures accrued in its EEEW/SWMA could not have been included in the utility's previously authorized rates. Therefore, DOWC did not receive revenues for the recently incurred expenses accrued in its EEEW/SWMA. Accordingly, recovering these expenses now would not amount to double recovery and is reasonable.

DWA finds it appropriate for ratepayers to pay for these costs, since these costs were accrued to provide ratepayers with water service and keep the company running, thereby ensuring that the utility has a reliable and sufficient water supply, which is beneficial to its customers. Accordingly, it is appropriate for ratepayers to pay for these costs in addition to otherwise authorized rates and, therefore, DOWC meets the 4<sup>th</sup> standard discussed above.

To minimize the impact of this amount on ratepayers, the surcharge has been spread over sixty (60) months for DOWC's Walnut Ranch's District (DOWCWR). Per guidance in Standard Practice U-27-W, Rule 64b, memorandum account amortization surcharges are to be spread over five years for under-collections exceeding 10% of gross revenues.

Since the sum of \$93,845 is over 10% of the current gross revenue for DOWCWR. DWA recommends a surcharge of \$20.58 per month per customer, for a period of sixty (60) months, for DOWCWR. This surcharge will not result in a rate of return greater than the last authorized for DOWCWR.

DOWCWR should be permitted to transfer the amounts in its EEEW/SWMA to a balancing account for recovery. DOWCWR should be permitted to recover the amounts in the balancing account by imposing a surcharge of \$20.58 per month per customer, for a period of sixty (60) months, for DOWCWR. As monthly residential flat rate service is \$106.85, this surcharge of \$20.58 will increase rates by 19.26%.

Once the annexation has been completed, the cost recovery adopted in this resolution should be reflected in any future transfer of ownership proceeding.

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## COMMENTS

Public Utilities Code Section 311(g)(1) provides that resolutions generally must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission.

Accordingly, the draft resolution was mailed to the utility, all protestants, and made available for public comment on February 16, 2016. No comments were received.

## SAFETY

The resolution provides adequate revenues to DOWC so that it can provide safe and reliable water service to its customers. The water served by DOWC meets all applicable primary water quality standards set forth by the State Water Resources Control Board.

## COMPLIANCE

There are no outstanding Commission orders requiring system improvements. DOWC has been filing annual reports as required.

## FINDINGS

1. Del Oro Water Company (DOWC) seeks to recover costs associated with both the Walnut Ranch District (District)'s reimbursement of City of Colusa fees incurred in contract negotiations for the Emergency Transmission Intertie Project, as well as costs incurred with the Colusa Industrial Park Intertie Project.
2. By Advice Letter (AL) 424, filed on November 2, 2015, for the District, DOWC seeks to recover the expenditures which DOWC recorded in its EEEW/SWMA.
3. Resolution No. 4761, dated May 7, 2009, adopted the Colusa Industrial Park Intertie Project.
4. On February 11, 2014, Walnut Ranch officially became a part of the City of Colusa.
5. On March 6, 2014, the Colusa Local Agency Formation Commission (LAFCO) adopted a Resolution, Certificate of Completion, for the annexation of the Walnut Ranch subdivision.

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6. DOWC is being forced to abandon the project as a result of annexation.
7. DOWC incurred and recorded in the EEEW/SWMA from February 28, 2005 through October 29, 2015, a total amount of \$93,845.
8. The expenses recorded in DOWC's EEEW/SWMA of \$93,845 are prudent, reasonable, and not covered by other authorized rates. Also, it is appropriate for ratepayers to pay for these costs in addition to otherwise authorized rates.
9. DOWC could not have reasonably anticipated these expenses in the EEEW/SWMA in its present rates, which became effective on May 6, 2014 for the District.
10. It is appropriate for ratepayers to pay for these costs, since these costs were accrued to provide water service to ratepayers, which is beneficial to its customers.
11. AL 424 was served on November 2, 2015, in accordance with the provisions of General Order (G.O.) 96-B. A notice of the proposed rate increase was mailed to all DOWCWR customers on November 3, 2015. Three protests were received.
12. DOWC responded to each of the three protests, and to the extent that changes or modifications were necessary, they were incorporated herein.
13. DOWC should be permitted to transfer the amounts in its EEEW/SWMA to a balancing account for recovery.
14. DOWC should be permitted to recover the amounts in the balancing account by imposing a surcharge of \$20.58 per month per customer, for a period of sixty (60) months, for the District.
15. This surcharge will not result in a rate of return greater than the last authorized for the District.

### **THEREFORE, IT IS ORDERED THAT:**

1. Del Oro Water Company, Walnut Ranch District, is authorized to transfer the amount of \$93,845, in its Extraordinary Events Emergency Water and/or Supplemental Water Memorandum Account to a balancing account for recovery over a period of sixty (60) months. Accrued interest at the 90-day commercial paper

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rate may be added on the uncollected amounts from the effective date of this Resolution.

2. Del Oro Water Company, Walnut Ranch District, is authorized to recover the amount in the balancing account reflected in Ordering Paragraph 1 above by imposing a surcharge of \$20.58 per month per customer, for a period of sixty (60) months.
3. Del Oro Water Company, Walnut Ranch District, shall track the revenue from a surcharge of \$20.58 per month per customer, for a period of sixty (60) months, reflected in Ordering Paragraph 2 above in a balancing account and account for any over or under collected revenues in its next general rate case.
4. Authority is granted under Public Utilities Code Section 454 to Del Oro Water Company, Walnut Ranch District, to file a supplemental advice letter with the revised surcharge rate schedules and concurrently cancel its presently effective Schedules, WR-2R, Residential Flat Rate Service. The effective date of the revised rate schedules shall be five days after the date of filing.
5. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at the Public Utilities Commission of the State of California on March 17, 2016; the following Commissioners voting favorably thereon:

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TIMOTHY J. SULLIVAN  
Executive Director



# DEL ORO WATER COMPANY

## ADVICE LETTER NO. 424

### SERVICE LIST

California Public Utilities Commission  
Division of Ratepayer Advocates  
[dra\\_water\\_al@cpuc.ca.gov](mailto:dra_water_al@cpuc.ca.gov)

Del Oro Water Company  
Janice Hanna, Director of Corporate Accounting  
[jeh@corporatecenter.us](mailto:jeh@corporatecenter.us)

Stephanie Sprague, Staff Accountant  
[stephanie@corporatecenter.us](mailto:stephanie@corporatecenter.us)

Tara Campbell, Staff Accountant  
[tlc@corporatecenter.us](mailto:tlc@corporatecenter.us)

Cheryl Carter, Accounts Receivable  
[cmc@corporatecenter.us](mailto:cmc@corporatecenter.us)

Del Oro Water Company, Inc.  
[servicelist@delorowater.com](mailto:servicelist@delorowater.com)

Fred Leonard  
26 Hartley Dr.  
Colusa, CA 95932  
[fastgpfred@comcast.net](mailto:fastgpfred@comcast.net)

Jennifer Vennery  
82 Sanborn Dr.  
Colusa, CA 95932  
[jvennery@frontier.net](mailto:jvennery@frontier.net)

Kathleen Moran, Colusa County Clerk  
546 Jay Street  
Colusa, CA 95932  
[ccclerk@countyofcolusa.org](mailto:ccclerk@countyofcolusa.org)

Division of Water and Audits  
[water.division@cpuc.ca.gov](mailto:water.division@cpuc.ca.gov)

City of Colusa  
Randall Dunn  
Interim City Manager  
425 Webster Street  
Colusa, CA 95932  
[citymanager@cityofcolusa.com](mailto:citymanager@cityofcolusa.com)

Paul Harmon  
76 Hartley Dr.  
Colusa, CA 95932  
[paul.clsinc@gmail.com](mailto:paul.clsinc@gmail.com)

Leonard Bolen  
48 Ashley Dr.  
Colusa, CA 95932  
[leb95932@yahoo.com](mailto:leb95932@yahoo.com)

# CERTIFICATE OF SERVICE

I certify that I have by either electronic mail or postal mail, this day, served a true copy of Proposed Resolution No. W-5083 on all parties in these filings or their attorneys as shown on the service list.

Dated February 16, 2016 at San Francisco, California.

/s/DANIEL SONG

Daniel Song

Parties should notify the Division of Water and Audits, California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, CA 94102, of any change of address to ensure that they continue to receive documents. You must indicate the Resolution number on which your name appears.